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483 Bay Street
Toronto, Ontario M5G 2P5
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Brian Gabel
Vice-President and Chief Regulatory Officer
Regulatory Affairs

hydro one

BY COURIER

October 1, 2004

Mr. John Zych
Secretary
Ontario Energy Board
Suite 2601, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Mr. Zych:

Hydro One Networks' Application to Establish Interim Time-of-Use Rates for Demand-billed Customers with Specific Consumption Profile

I am attaching five (5) copies of the Application and supporting evidence filed by Hydro One Networks' in the matter of an Application to Establish Interim Time-of-Use Rates for Demand-billed Customers with Specific Consumption Profile.

I have also attached electronic versions of the filed evidence in Acrobat format.

Yours truly,

Brian Gabel

cc. Mr. D. Skinner, Manager, Rate and Financial Services
Ms. K. Walli, Manager, Strategic Services
Ms. L. Brickenden, Research and Policy Analyst, Strategic Services

Attach.

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Networks Inc., for an Order or Orders approving rates for the distribution of electricity.

APPLICATION

1. The Applicant is Hydro One Networks Inc., a wholly-owned subsidiary of Hydro One Inc. ("Hydro One"). The Applicant, an Ontario corporation with its head office in the City of Toronto, carries on the business, among other things, of owning and operating distribution facilities within Ontario.

2. Hydro One Networks Inc. hereby applies on behalf of its Distribution business ("Hydro One Distribution"), to the Ontario Energy Board (the "Board"), pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for an Order or Orders approving on an interim basis:
   a) Rates for the distribution of electricity for demand-billed customers with a specific consumption profile.
   b) The establishment of rate classes appropriate for the above.
   c) The proposed qualifications for eligibility for such rates.
   d) Retroactive implementation from May 1, 2002.
   e) Permission to track the associated shortfall in Distribution revenues in a deferral account for future disposition.

   Hydro One Distribution received a letter from the Minister of Energy dated September 9, 2004, granting approval to make an Application to the Board to adjust distribution rates. (Exhibit A, Tab 4, Schedule 1).

3. Hydro One Distribution proposes that the application of the existing distribution rates for eligible demand-billed customers be amended to permit charging these rates in a time-differentiated manner as a pilot program. This pilot aligns with the energy efficiency initiatives contemplated by the Government in its proposed legislation and with the Minister's Directive to the Board to examine the introduction of non-commodity time-of-use (ToU) rate structures to complement the implementation of smart meters. While the main intent of this pilot is prospective application, it nonetheless would also recognize the fact that since market opening some former ToU customers have not been able to take advantage of the non-commodity ToU rates now being proposed. These customers have experienced very adverse effects due to the application of non-time differentiated distribution charges. These effects cannot be addressed solely through lower commodity charges during the off-peak period. Accordingly, the Applicant also requests retroactive application of this pilot.

4. The written evidence, as filed with the Board, may be amended from time to time prior to the Board's final decision on the Application. Further, the Applicant may seek meetings with Board staff and intervenors in an attempt to identify and reach agreements to settle issues arising out of this Application.

5. The persons affected by this Application are the ratepayers of Hydro One Distribution. It is impractical to set out their names and addresses because they are too numerous.

6. Hydro One Distribution requests that a copy of all documents filed with the Board by each party to this Application be served on the Applicant and the Applicant's counsel as follows:

a) The Applicant:

Mr. Glen MacDonald
Senior Advisor - Regulatory Affairs
Hydro One Networks Inc.

Address for personal service:	13th Floor, North Tower 483 Bay Street Toronto, Ontario M5G 2P5
Mailing Address	13th Floor, North Tower 483 Bay Street Toronto, Ontario M5G 2P5
Telephone:	(416) 345-5913
Fax:	(416) 345-5866
Electronic access:	glen.e.macdonald@HydroOne.com

b) The Applicant's counsel:

Ms. Mary Anne Aldred
Assistant General Counsel – Regulatory
Hydro One Networks Inc.

Address for personal service:	15th Floor, North Tower 483 Bay Street, Toronto, Ontario M5G 2P5

Mailing Address: 15th Floor, North Tower
483 Bay Street,
Toronto, Ontario
M5H 3M7

Telephone: (416) 345-6302
Fax: (416) 345-6972

Electronic access: m.a.aldred@HydroOne.com

DATED at Toronto, Ontario, this 1st day of October, 2004.

HYDRO ONE NETWORKS INC.
By its counsel,

_____

Mary Anne Aldred

EXHIBIT LIST

Exh	Tab	Schedule	Contents
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B			**Hydro One's Proposed Interim Time-of-Use Rate Pilot Program**
	1	1	Pilot Program – Interim Time-of-Use Rate Proposal
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HYDRO ONE'S REQUEST FOR APPROVAL FROM THE MINISTER OF ENERGY

Hydro One Inc.
483 Bay Street
10th Floor South Tower
Toronto, Ontario M5G 2P5

Tel: (416) 345 6001
Fax:(416) 345 6054

Tom Parkinson
President and Chief Executive Officer

hydroOne

August 11, 2004

The Honourable Dwight Duncan
Minister of Energy
Hearst Block, 4th Floor
900 Bay Street
Toronto, Ontario
M7A 2B1

Dear Minister:

Hydro One Networks Inc. Distribution Business – Approval to Seek OEB Approval of Commercial, Industrial and Farm Time-of-use Rate and Deferral Account

As you are aware, Hydro One Networks Inc. Distribution business is making a submission to the Ontario Energy Board respecting demand side management ("DSM") initiatives that it plans to undertake. In that submission, we propose to seek OEB approval, on a trial basis, of a time-of-use rate for commercial, industrial and farm customers that are billed on the basis of demand charges, and that can shift a substantial portion of their demand away from peak periods. We have discussed this proposal with your staff and with the OEB, and are advised that we require your approval pursuant to section 79.6(2) of the Ontario Energy Board Act, 1998, so that the OEB can deal with this proposal. With your approval, the distribution business will also seek OEB approval to record in the DSM deferred account, the revenue reduction that results from customers being reclassified from their current non-time-of-use rate categories to time-of-use rate categories.

This rate proposal is intended as a DSM initiative that could stay in place until the next time that a full assessment of distribution costs is conducted. At that time Hydro One Networks would assess the effectiveness of this transitional pricing proposal in encouraging customers to move their demand outside of peak periods.

The demand-related rates currently charged by Hydro One Networks and other Ontario distributors are applied to the highest demand within a one-hour period, regardless of when that peak consumption occurs. However, the cost incurred by utilities to satisfy customer demand and the cost and availability of generation is believed to be greater at peak times (7 a.m. to 7 p.m. on weekdays), than it is at other times. Therefore, the total electrical system benefits from a reduction in demand during peak periods.

Hydro One Networks will propose for OEB approval, that a time-of-use rate be made available to commercial, industrial and farm customers whose load ratio, based on 2003 actual customer data, is weighted toward off-peak periods. The approved rate would be unchanged, but the charge determinant would be applied during the peak period only and would be applicable on and after September 1, 2004. Other commercial, industrial and farm customers that during the period subsequent to September 1, 2004 demonstrate a shift in their load ratio that is consistent with the rate criteria would also be transferred to the proposed time-of-use rate. Hydro One Networks would also request that the reduction in revenues from the transfer of customers to this new rate category be charged to the DSM deferred account as are the costs of other DSM initiatives.

In addition, there is a set of unique circumstances that exists with certain customers who were previously on time-of-use rates. These rates were discontinued at market opening and as a result, these customers have paid substantially higher rates since that time. Given these circumstances, we are also seeking your approval pursuant to section 79.6 of the Ontario Energy Board Act, 1998 for an application asking the OEB to apply the proposed time-of-use rate retroactively. Alternatively, the Minister could approve a rate change that would apply to this prior period under the authority contained in sections 79.8 or 79.9 of the Act. Without either OEB or Ministerial approval, Hydro One must apply the approved rate schedule currently in place for the prior period.

Hydro One Networks Inc. would be pleased to provide any further information that might assist you in facilitating this request.

Sincerely,

Tom Parkinson
President & CEO
Hydro One Inc.

LETTER OF APPROVAL FROM THE MINISTER OF ENERGY

Minister of Energy

Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6715
Fax: 416-327-6754

Ministre de l'Énergie

Édifice Hearst, 4e étage
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416-327-6715
Téléc.: 416-327-6754

Ontario

SEP - 9 2004

Mr. Tom Parkinson
President and Chief Executive Officer
Hydro One Inc.
483 Bay Street
10th Floor, South Tower
Toronto, Ontario
M5G 2P5

Dear Mr. Parkinson:

Thank you for your letter seeking approval to make an application for an order under section 78 of the Ontario Energy Board Act, 1998, pursuant to section 79.6(2).

After assessing your request, I am prepared to give my approval to apply for an order from the Ontario Energy Board (OEB) to allow the implementation of a time-of-use (TOU) rate on a trial basis to certain customers, as identified in your letter and discussed with Ministry of Energy staff. I know you are aware of the government's strong support for TOU rates and smart meters. To this end, we have announced our intention to put smart meters into every home in the province by 2010, providing Ontarians with the opportunity to save money by using electricity during off-peak hours. Our interim target is to have smart meters in 800,000 households by 2007.

To achieve these targets, I have recently issued a directive to the OEB to consult with stakeholders and identify options and address issues with regard to the deployment of smart metering. In addition, the OEB is to develop and, upon my approval, implement a plan to achieve the targets noted above. In conjunction with the development of this plan, I have also asked the OEB to examine the need for, and effectiveness of, TOU rates for non-commodity charges to complement the implementation, and maximize the benefits, of smart meters. I am therefore encouraged to hear of your proposal to offer TOU rates for distribution service on a trial basis to some of your larger customers.

RECEIVED
SEP 1 6 2004
T. PARKINSON

.../cont'd

I look forward to your continued participation as we move to a fairer and more responsible electricity system.

Sincerely,

Dwight Duncan
Minister

c: Howard Wetston, Chair, Ontario Energy Board

PILOT PROGRAM - INTERIM TIME-OF-USE RATE PROPOSAL

The Minister of Energy has announced initiatives that will encourage customers to moderate and/or modify their demand for electricity.

In response to the Minister's announcements, Local Distribution Companies (LDCs) are expected to develop and implement Demand Side Management (DSM) programs. Accordingly, Hydro One Distribution is developing a number of DSM initiatives, one of which is a proposal to introduce a pilot program, interim time-of-use (ToU) rates, that would provide additional encouragement for Commercial and Industrial customers to shift their demand away from the more constrained peak period. Hydro One Distribution has written to the Minister of Energy seeking approval to submit this pilot program to the OEB to approve the interim ToU rate (Exhibit A, Tab 3, Schedule 1).

This Exhibit sets out Hydro One Distribution's proposal for modifying the existing approach to bill customers for distribution volumetric charges based on demand by introducing, as a DSM program, a pilot program of interim time-of-use Distribution rates. The pilot program would apply to customers whose off-peak period electricity consumption is substantially higher than their peak period electricity consumption.

The intent of the proposal is to establish to what degree Distribution charges are an impediment to customers shifting electricity consumption away from the peak period and into the off-peak period.

Based on analysis of past consumption data, three (3) customers would immediately qualify for the pilot program under the proposed conditions by continuing to consume power as they did in the past. It is estimated that one additional customer could qualify for the pilot program by shifting some more consumption to the off-peak period than what it currently consumes. By offering this pilot program, the number of customers that will modify their consumption patterns

to take advantage of the pilot program will be an indicator if Distribution charges are an impediment, or a significant factor in promoting load shifting by customers. Since Distribution charges represent approximately 20% of the customer's total electricity bill, the savings a customer can achieve in Distribution charges resulting from shifting consumption to the off-peak period are small compared to the savings to be achieved through lower commodity charges. Based on this, it is possible that the number of customers that will alter their consumption patterns as a result of offering this pilot program could be small.

The pilot program will be promoted as part of the communication package that is expected to be sent to customers outlining the various DSM activities being conducted by Hydro One Distribution. The Minister of Energy has indicated his approval for Hydro One Distribution to proceed to submit the ToU rate proposal for Board approval (Exhibit A, Tab 4, Schedule 1).

Hydro One Distribution also seeks permission to apply this program dating back to market opening to the three customers who could have taken advantage of the rate, had it existed after market opening.

In the case of both prospective and retrospective application, Hydro One requests permission to track the associated shortfall in Hydro One Distribution revenues in a deferral account for future disposition.

1.0 BACKGROUND

Prior to Market Opening in May 2002, customers in Ontario with demands above 5 MWs, and most LDCs, were billed for electricity consumption, first by the former Ontario Hydro and then by Ontario Power Generation, based on time-of-use rates. LDCs also billed their Large Use customers, (above 5 MW), based on time-of-use rates. In addition, many customers with electricity demands below 5 MWs were also billed by their respective distributors based on time-of-use rates. The intent behind those time-of-use rates was to send a price signal to customers

that would influence how they consume electricity that in turn would help to reduce generation costs during periods of maximum demand.

The ToU periods used prior to Market Opening in May 2002 varied by season. The winter season was defined as October through March, and the summer season was defined as April through September. Peak period was defined as 7 a.m. to 11 p.m. weekdays excluding holidays, and off-peak period was defined as all other hours. Winter ToU rates were higher than summer ToU rates and peak rates were higher than off-peak rates. Winter ToU peak rates were the highest rates, followed by summer ToU peak rates. Summer ToU off-peak rates were the lowest rates.

In response to the availability of pre-market opening ToU rates, some customers adapted their operations to take advantage of lower off-peak prices and shifted their electricity consumption away from the peak period and into the off-peak period. Since those ToU rates were bundled, the savings achieved by customers that shifted electricity consumption to the off-peak period appeared to be the result of having *de facto* lower generation, transmission, and distribution charges during off-peak periods.

With the unbundling of rates and charges implemented with Market Opening, customers that were on ToU rates could continue to take advantage of lower generation costs in the off-peak period by being market participants in respect of the electricity commodity. However, these customers did not derive any benefits from shifting consumption to off-peak periods from the perspective of paying lower unbundled distribution charges, since these charges were not time-differentiated, in accordance with the Ontario Energy Board (Board) approved rate design. For some customers that had previously responded to the ToU price signals, the application of non-time differentiated charges, based on non-coincident peak demand, produced very adverse effects that could not be readily mitigated by lower commodity charges during off-peak periods. (These are the customers for whom retroactive application of the proposed rate schedules is sought.) This effect suggests that the former ToU rates did not cover sufficiently the recovery of

transmission and distribution costs, which effect became evident when these costs and related rates were unbundled at market opening. Consequently the unbundling of transmission and distribution charges revealed the significance of cross-subsidies that were present in the pre-market bundled electricity rates.

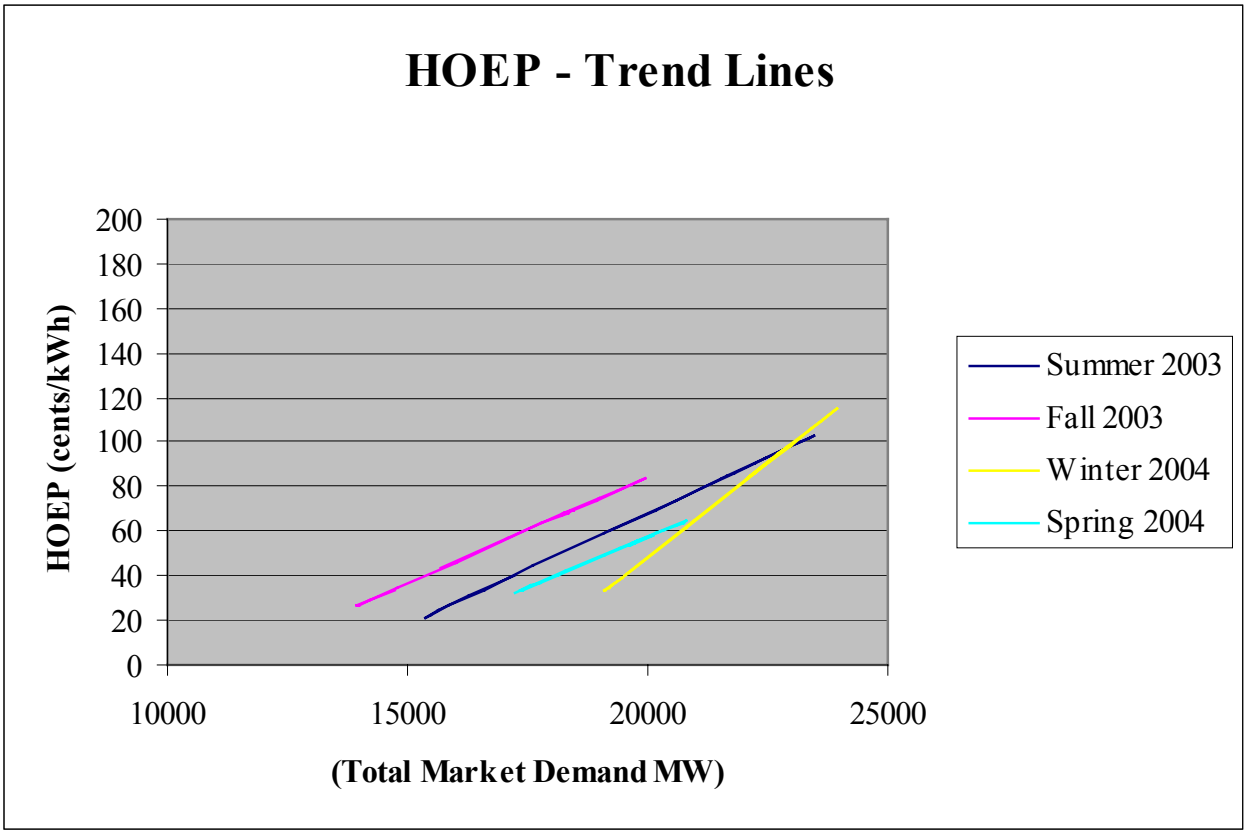
Ontario currently faces a shortage of generation supply capacity and the recently announced Government policy initiatives with respect to the electricity system places renewed emphasis on DSM initiatives. A common element in DSM initiatives is the shifting of electricity consumption away from the on-peak period and into the off-peak period, in order to reduce the need for running more expensive generating capacity to meet the maximum demand and not having to add generation, transmission, and distribution assets to meet on-peak demand.

Customers that shift electricity consumption from the on-peak period and into the off-peak period, provide benefits to themselves and to the electricity system as a whole. The net effect is lower electricity demand during the on-peak period and lower system losses. Consequently some reduction would be expected in the electricity commodity prices paid by all electricity customers since, in general, the lower demand requires less expensive generating capacity to meet that demand. In turn, this would lead to a delay in the need for new capital expenditures in generation, transmission and distribution.

As illustrated by the trend lines in the following Graph 1, the price of the electricity commodity during periods of maximum demand is generally higher compared to those periods when maximum demand is lower. The trend lines indicate that as demand decreases, the Hourly Ontario Energy Price (HOEP) decreases. These observations are based on data obtained from the IMO's web-site for the period June 2003 to May 2004.

Graph 1

Relationship of Hourly Ontario Energy Price (HOEP)[1] and Market Demand



Offering customers rate incentives through time-differentiated Distribution rates that help to shift electricity consumption away from periods of maximum demand and into the off-peak periods could help reduce somewhat the Province's future supply capacity needs during on-peak demand periods. The move towards considering customers' time-differentiated non-commodity charges is consistent with the Government energy efficiency initiatives brought about by recent legislation. It is also consistent with the recent Minister's Directive to the Board[2], which also

[1] "The arithmetic average of the uniform Ontario energy prices determined for each dispatch interval pursuant to section 8.3 of chapter 7," IMO's Market Rules for the Ontario Electricity Market, Issue 9.0, September, 2004, Chapter 11.

[2] Minister's Directive to the OEB concerning the implementation of smart electricity meters, dated July 14, 2004.

includes a directive to examine the need for introducing non-commodity time-of-use rate structures as a means to complement the implementation of smart meters.

2.0 PROPOSAL

Hydro One Distribution proposes that a pilot program consisting of interim ToU distribution rates be offered to eligible customers whose consumption in the off-peak period is substantially higher than in the on-peak period and that the three customers who were unable to take advantage of such rates in the period since market opening be allowed to benefit from such rates as though they had been in place for that period.

On-peak period would be defined as 7 a.m. to 7 p.m. weekdays excluding holidays, similar to the definition currently applied for the calculation of wholesale Transmission Network charges. Off-peak period would be defined as all remaining hours.

Hydro One Distribution had previously included a proposal for ToU rates with its RP-2000-0023 submission for unbundled distribution rates. At that time the OEB did not approve the implementation of ToU rates. The Board found that "…providing a very small number of customers special treatment primarily based on historical considerations….is not in the public interest in this case"[3]. Since then, the circumstances have changed with respect to how the Ontario electricity market has evolved. In fact, the electricity market in Ontario has not evolved as planned, or as expected, prior to market opening. The volatility, and magnitude, of electricity prices resulted in consumer complaints that led to Government legislation, which froze retail electricity commodity prices[4]. This action had the effect of reducing market liquidity in general and therefore has likely reduced the available range of choices for commodity supply for all classes of customers. The apparent lack of interest by third parties in investing in new supply capacity in Ontario, whilst demand for electricity consumption continues to grow, led the

[3] RP-2000-0023/EB-201-0016: OEB Decision with Reasons, June 12, 2002, Section 3.0.9.
[4] Bill 210 Electricity Pricing, Conservation and Supply Act, November 2002.

Government to introduce new legislation with a focus on energy conservation and demand management[5]. In this respect this Hydro One Distribution proposal to introduce a pilot program that includes ToU rates at this time for some segment of its distribution customers, is consistent with the evolving electricity industry developments.

To evaluate customer response to the availability of unbundled Distribution ToU rates in today's environment, Hydro One Distribution is proposing that the application of the existing distribution rates for demand-billed customers be amended to permit charging these rates in a time-differentiated manner as a pilot program. The program will be offered to General Service, Farm, and T-class customers, whose off-peak consumption is substantially higher than their on-peak consumption. The interim rates would also be offered to eligible General Service and Large Use customers of Acquired LDCs.

The Hydro One Distribution ToU rates to be applied to eligible demand-billed customers would be numerically the same as the currently approved distribution demand rates. However, the rates would apply to the maximum demand charge determinants measured during the on-peak period only. Currently the charge determinants for demand-billed distribution charges are applied to maximum demand established any time during the monthly billing period. In this respect, Hydro One Distribution is not proposing to implement a separate set of lower ToU rates to be used in the off-peak period. Rather, Hydro One Distribution proposes that qualifying customers be charged the existing rate respecting the demand that is registered during the on-peak period. In this way customers will benefit from lower distribution charges since the demand shifted to the off-peak period would not attract a corresponding demand-related distribution charge.

The Hydro One Distribution proposal for the pilot program of interim ToU distribution rates does not contemplate introducing seasonally differentiated rates, but only time-of-day rates, by applying the demand distribution charges only during the on-peak period. This keeps the pilot

[5] Bill 4 Ontario Energy Board Amendment Act, November 2003.

program simple and consistent with Network Transmission charges that do not have a seasonal component and are applied only during the on-peak period.

2.1 Retroactive Implementation

As noted earlier, while former ToU customers continue to benefit from lower generation costs due to their participation in the commodity market after May 1, 2002, they cannot benefit similarly on their distribution bill, as these charges are not time-differentiated. Unique circumstances apply to some customers that had shifted their load in response to the former ToU program, which was then discontinued on market opening. These customers have experienced very adverse effects since market opening, due to the application of non-time-differentiated distribution charges. These effects could not be addressed solely through lower commodity charges during the off-peak period and therefore, have potentially disadvantaged these customers since market opening. Accordingly, while Hydro One Distribution makes this submission on a prospective basis, we also request application of the program retroactively to May 1, 2002.

2.2 Prospective Implementation

Hydro One Distribution also requests the Board's approval of this submission on a prospective basis, effective as of the date of the Board's approval. The Applicant submits that this pilot aligns with both the energy efficiency initiatives contemplated by recently proposed legislation as well as with the Minister's Directive to the Board on Smart Metering, which directs the examination of non-commodity time-of-use rate structures as a complementary vehicle to assist customers with shifting their electricity consumption into off-peak periods.

2.3 Deferral Account Treatment

It is proposed that the shortfall in Hydro One Distribution revenues resulting from the application of the pilot program, both retroactive and prospective, be tracked in a deferral account

established with respect to tracking Hydro One Distribution's DSM initiative costs. In Hydro One Distribution's letter of October 1, 2004 to the Board on this issue, we requested the establishment of a deferral account to enable the tracking of any shortfall in distribution revenues resulting from the application of the proposed ToU rates and that any such shortfall be recovered through the funds made available to implement DSM initiatives. Should the Board approve retroactive implementation, all revenue reduction attributable to these interim ToU rates would be charged to this account. In the alternative, should the Board not approve retroactive implementation, we requested approval to charge these amounts prospectively from the date of the Board's approval. The anticipated revenue shortfall associated with this pilot is $150,000 per year – an amount which could be higher if the program is successful and other customers change their usage patterns as a result of the availability of the interim rate.

Hydro One Distribution proposes that customer response to the pilot program of interim distribution ToU rates would be assessed during Hydro One Distribution's next distribution rates submission.

3.0 IMPACT ON HYDRO ONE DISTRIBUTION CUSTOMERS

The estimated impact on customers is described below.

3.1 Participating customers

Customers that qualify for the pilot program of interim ToU distribution rate could realize substantial savings in distribution charges depending on their response to time-differentiated distribution charges.

The following Table 1 provides an illustration of potential distribution charge savings under the pilot program for an Industrial/Commercial Sub-Transmission T-class customer compared to distribution charges incurred using currently approved non-ToU differentiated distribution rates.

Table 1

Distribution Bill comparison

	Fixed Charge [$/month]	**Variable Charge [$/kW]**	**Fixed $**	**Variable $**	**Distribution Bill $**	**Difference %**
As currently billed	$ 238.71	7.09	238.71	17,016	17,255	-
Time-of-use	$ 238.71	7.09	238.71	4,254	4,493	-74%

In this example the customer consumption in the on-peak period is 600 kW and the consumption in the off-peak period is 2,400 kW. It is clear that for this particular customer the benefit of ToU charges is quite substantial with respect to distribution charges. When viewed from the perspective of the total bill impact, the corresponding reduction would be 27% on a total monthly bill of $48,126.

3.2 Non-participating customers

Non-participating Hydro One Distribution customers would be unaffected by the proposed pilot program of interim ToU distribution rates since there would be no change to their existing distribution rates, nor to the way these existing rates are charged during the interim period. The shortfall in Distribution revenues would be addressed at the next Hydro One Distribution rate submission, or at the time when the Board deals with the method of recovery of costs accumulated in the DSM deferral accounts, at which time the impact on non-participating customers would be assessed.

3.3 Implementation Costs

The estimated costs of the proposal include billing, communication and monitoring costs and these are estimated to be approximately one-time costs of $25,000 to $35,000.

Based on the assumption that three customers will qualify for this interim pilot program at the outset, it is estimated that the Distribution revenue reduction as a result of the program will be approximately $150,000 prospectively per year and approximately $400,000 in total for the three eligible customers for the retroactive period, until new Distribution rates can be established. The prospective amounts could be higher if a number of new customers alter their consumption profile to take advantage of this program. This reduction in revenues relative to what would be charged had current rates been applied, is the amount that would be charged to the DSM funds.

4.0 IMPLEMENTATION CONSIDERATIONS

A number of implementation eligibility criteria related to the pilot program of interim ToU distribution rate proposal are discussed below.

4.1 Ratio of off-peak to on-peak electricity consumption

The proposal is to offer the pilot program of interim ToU Distribution rates to customers whose off-peak electricity consumption is at least twice their on-peak electricity consumption as measured by maximum demand during the respective periods. The choice of the ratio factor is meant to reflect customers' desire and commitment to shift significant demand away from the on-peak period. Also, this will allow Hydro One Distribution to limit the number of participants and evaluate the costs of implementing the program before embarking on a wider scale implementation, if the results from the pilot program should indicate so.

4.2 Consistency of consumption

Customers would need to demonstrate the sustainability of the minimum ratio of off-peak to on-peak electricity consumption for at least two consecutive billing periods to be considered for the pilot program of interim ToU Distribution rates. This approach should remove any temporary

effects that may be caused by changes in customers' operating conditions, equipment outages, etc. Incremental costs will be incurred to change how each participating customer is billed. Limiting the pilot program to customers that consistently consume more power in the off-peak period will keep the implementation costs at a more manageable level.

4.3 Pass-through charges

All applicable pass-through charges would continue to be applied as currently approved. The pass-through charges include Commodity charges, Retail Transmission charges, Wholesale Market Service charges, and Debt Retirement charges.

4.4 Yearly review

Customer consumption patterns will be reviewed annually to ensure that the consumption of electricity continues to meet the eligibility criteria.

4.5 Metering

Eligible customers must have appropriate metering in place to be able to participate in this pilot program. The meter has to be able to record demand consumption by interval period. If appropriate metering is not in place and the customer would like to take advantage of this rate, the costs of purchasing and installing the appropriate meter will be the responsibility of the customer. If the customer consistently maintains the off-peak consumption pattern required to be eligible to participate in the pilot program, Hydro One Distribution would refund the cost of the meter after 12 months of the customer being enrolled in the program.

PROPOSED APPLICATION OF INTERIM TIME-OF-USE RATES

Hydro One Distribution proposes to introduce new rate schedules that include the pilot program of interim ToU rates for customer classes that meet the eligibility criteria outlined in Section 4 of Exhibit B, Tab 1, Schedule 1.

Retroactive application of this pilot program necessitates consideration of two time frames – from May 1, 2002 through March 31, 2004 and from April 1, 2004 onward, when the first phase of regulatory asset recovery was implemented through an increase to the "market opening" distribution rates. Therefore, Board approval of retroactive application of this pilot program from May 1, 2002, would require changes to rate schedules in effect on that date, as well as to those which came into effect on April 1, 2004 and remain current today.

Prospective application of this program requires a new rate schedule respecting the ToU terms and conditions to come into effect as of the future date approved by the Board.

This proposal does not change the numerical portion of any approved rate schedule, but rather, adds ToU criteria, a definition of the ToU period and, for eligible customers, applies the approved rates to the maximum charge determinants measured during the on-peak period only. The proposed rate schedules applicable to Hydro One Distribution's core retail customers and a sample proposed rate schedule for Hydro One Distribution's acquired customers for the three periods under consideration – i) retroactively from May 1, 2002 through March 31, 2004, ii) retroactively from April 1, 2004 and onward and iii) prospectively from the date of Board approval, are provided in the following schedules to this exhibit. All added information with respect to ToU rates is provided in bold italics for clarity.

- for Eligible Core Retail Customers – A proposed rate schedule for retroactive application from May 1, 2002 through March 31, 2004 is provided in Exhibit B, Tab 3, Schedule 1, and the second proposed schedule for retroactive application from April 1, 2004 onward is

provided in Exhibit B, Tab 3, Schedule 2. The proposed rate schedule for prospective application is provided in Exhibit B, Tab 3, Schedule 3.

- for Eligible Customers of Arnprior – Rather than submit new rate schedules for all of Hydro One Distribution's acquired LDCs at this time, the rate schedule for the Town of Arnprior was chosen as a sample as it contains rates for both the General Service and Large Use customer categories targeted for this pilot. Accordingly, for eligible customers of acquired LDCs, a comparison of the original and proposed rates is provided in Exhibit B, Tab 4, Schedule 1, a sample proposed rate schedule for retroactive application from May 1, 2002 through March 31, 2004 is provided in Exhibit B, Tab 4, Schedule 2 and the second proposed schedule for retroactive application from April 1, 2004 onward is provided in Exhibit B, Tab 4, Schedule 3. The proposed rate schedule for prospective application is provided in Exhibit B, Tab 4, Schedule 4.

PROPOSED RATE SCHEDULE FOR RETROACTIVE APPLICATION FROM MAY 1, 2002

APPENDIX G-1
HYDRO ONE NETWORKS INC.

INTERIM DSM TIME-OF-USE RATES
EFFECTIVE MAY 1, 2002 THROUGH MARCH 31, 2004

ToU Criteria for Eligibility
Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates
The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

Farm Single Phase *ToU* F1 – Applicable to Single Phase Farm Customers actively engaged in agricultural production, in areas other than Urban Density Zones

Service Charge (per month)	$54.70[1]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$5.26

Farm Three Phase *ToU* F3 – Applicable to Three Phase Farm Customers actively engaged in agricultural production, in other areas than Urban Density zone

Service Charge (per month)	$48.46[2]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$9.07

[1] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF1 customers would be reduced by the applicable RRRP credit.

[2] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF3 customers would be reduced by the applicable RRRP credit.

Industrial Commercial General Service, Urban Density *ToU* UG2 – Applicable to Farm Three Phase Customers, farm Single Phase demand-billed customers, and Industrial Commercial customers located in an Urban Density Zone

Service Charge (per month)	$13.58
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.11

Industrial Commercial General Service, Single Phase *ToU* G1 – Applicable to General Service Class Single Phase customers not located in an Urban Density Zone

Service Charge (per month)	$32.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.71

Industrial Commercial General Service, Three Phase *ToU* G3 – Applicable to General Service Class Three Phase customers not located in an Urban Density Zone

Service Charge (per month)	$41.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$8.32

Industrial Commercial Sub-Transmission *ToU* T – Applicable to Industrial Commercial Sub-Transmission class customers not located in an Urban Density Zone

Service Charge (per month)	$238.46
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$6.88

PROPOSED RATE SCHEDULE FOR RETROACTIVE APPLICATION FROM APRIL 1, 2004

APPENDIX G-2
HYDRO ONE NETWORKS INC.

INTERIM DSM TIME-OF-USE RATES
EFFECTIVE AS OF APRIL 1, 2004

The following rates shall remain in effect until superceded by further Order or Orders of the Board.

ToU Criteria for Eligibility
Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates
The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

Farm Single Phase *ToU* F1 – Applicable to Single Phase Farm Customers actively engaged in agricultural production, in areas other than Urban Density Zones

Service Charge (per month)	$54.70[1]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$5.61

Farm Three Phase *ToU* F3 – Applicable to Three Phase Farm Customers actively engaged in agricultural production, in other areas than Urban Density zone

Service Charge (per month)	$48.46[2]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$9.26

[1] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF1 customers would be reduced by the applicable RRRP credit.

[2] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF3 customers would be reduced by the applicable RRRP credit.

Industrial Commercial General Service, Urban Density *ToU* UG2 – Applicable to Farm Three Phase Customers, farm Single Phase demand-billed customers, and Industrial Commercial customers located in an Urban Density Zone

Service Charge (per month)	$13.58
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.30

Industrial Commercial General Service, Single Phase *ToU* G1 – Applicable to General Service Class Single Phase customers not located in an Urban Density Zone

Service Charge (per month)	$32.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$8.06

Industrial Commercial General Service, Three Phase *ToU* G3 – Applicable to General Service Class Three Phase customers not located in an Urban Density Zone

Service Charge (per month)	$41.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$8.50

Industrial Commercial Sub-Transmission *ToU* T – Applicable to Industrial Commercial Sub-Transmission class customers not located in an Urban Density Zone

Service Charge (per month)	$238.46
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.09

PROPOSED RATE SCHEDULE FOR PROSPECTIVE APPLICATION

APPENDIX G-2
HYDRO ONE NETWORKS INC.

INTERIM DSM TIME-OF-USE RATES
EFFECTIVE AS OF xxxxx *[Date approved by the Board]*

The following rates shall remain in effect until superceded by further Order or Orders of the Board.

ToU Criteria for Eligibility
Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates
The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

Farm Single Phase *ToU* F1 – Applicable to Single Phase Farm Customers actively engaged in agricultural production, in areas other than Urban Density Zones

Service Charge (per month)	$54.70[1]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$5.61

Farm Three Phase *ToU* F3 – Applicable to Three Phase Farm Customers actively engaged in agricultural production, in other areas than Urban Density zone

Service Charge (per month)	$48.46[2]
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$9.26

[1] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF1 customers would be reduced by the applicable RRRP credit.

[2] Under the *Ontario Energy Board Act, 1998*, and associated regulations, every qualifying year-round residence and farm with principal residence is eligible to receive Rural and Remote Rate Protection (RRRP). The service charge shown for eligible ToUF3 customers would be reduced by the applicable RRRP credit.

Industrial Commercial General Service, Urban Density *ToU* UG2 – Applicable to Farm Three Phase Customers, farm Single Phase demand-billed customers, and Industrial Commercial customers located in an Urban Density Zone

Service Charge (per month)	$13.58
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.30

Industrial Commercial General Service, Single Phase *ToU* G1 – Applicable to General Service Class Single Phase customers not located in an Urban Density Zone

Service Charge (per month)	$32.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$8.06

Industrial Commercial General Service, Three Phase *ToU* G3 – Applicable to General Service Class Three Phase customers not located in an Urban Density Zone

Service Charge (per month)	$41.94
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$8.50

Industrial Commercial Sub-Transmission *ToU* T – Applicable to Industrial Commercial Sub-Transmission class customers not located in an Urban Density Zone

Service Charge (per month)	$238.46
Volumetric Charge	
Demand Charge (per ***On-Peak*** kW per month)	$7.09

RATE DETAILS FOR ELIGIBLE CUSTOMERS OF ARNPRIOR

ORIGINAL RATES (IN EFFECT ON MAY 1, 2002) **PROPOSED RATES (EFFECTIVE AS OF MAY 1, 2002)**

General Service – Demand Billed

Monthly Service Charge	(per month)		12.18
Cost of Power	(per kWh)	$	0.0540
Distribution Volumetric Charge	(per kW)	$	3.11
Cost of Power	(per kW)	$	6.52
		$	

General Service – Demand Billed *ToU*

Monthly Service Charge	(per month)		12.18
Cost of Power	(per kWh)	$	0.0540
Distribution Volumetric Charge	(per ***on-peak*** kW)	$	3.11
		$	6.52
Cost of Power	(per kW)	$	

Large User -- TOU

Monthly Service Charge	(per month)		1,000.00
Distribution Volumetric Charge	(per kW)	$	0.94
		$	
Winter Peak Demand Cost of Power	(per kW)		10.45
Summer Peak Demand Cost of Power	(per kW)		7.63
Winter On Peak Cost of Power	(per kWh)		0.0689
Winter Off Peak Demand Cost of Power	(per kWh)	$	0.0412
Summer On Peak Demand Cost of Power	(per kWh)		0.0582
Summer Off Peak Demand Cost of Power	(per kWh)		0.0306
		$	
		$	
		$	
		$	
		$	

Large User – *Interim ToU*

Monthly Service Charge	(per month)		1,000.00
Distribution Volumetric Charge	(per ***on-peak*** kW)	$	0.94
		$	
Winter Peak Demand Cost of Power	(per kW)		10.45
Summer Peak Demand Cost of Power	(per kW)		7.63
Winter On Peak Cost of Power	(per kWh)		0.0689
Winter Off Peak Demand Cost of Power	(per kWh)	$	0.0412
Summer On Peak Demand Cost of Power	(per kWh)		0.0582
Summer Off Peak Demand Cost of Power	(per kWh)		0.0306
		$	
		$	
		$	
		$	
		$	

Interim ToU Criteria for Eligibility: Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates: The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

A SAMPLE RATE SCHEDULE FOR ELIGIBLE CUSTOMERS OF ARNPRIOR
for Retroactive Application, Effective May 1, 2002

Hydro One Networks Inc.
For the Service Area Formerly Served by the
Hydro-Electric Commission of the Town of Arnprior
Schedule of Rates and Charges
Effective *May 1, 2002 Through March 31, 2004*

INTERIM DSM TIME-OF-USE RATES

ToU Criteria for Eligibility:

Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates

The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

General Service – Demand Billed *ToU*

Monthly Service Charge	(per month)		12.18
Cost of Power	(per kWh)	$	0.0540
Distribution Volumetric Charge	(per ***on-peak*** kW)	$	3.11
Cost of Power	(per kW)	$	6.52
		$	

Large User – *Interim ToU*

Monthly Service Charge	(per month)		1,000.00
Distribution Volumetric Charge	(per ***on-peak*** kW)	$	0.94
Winter Peak Demand Cost of Power	(per kW)	$	10.45
Summer Peak Demand Cost of Power	(per kW)	$	7.63
Winter On Peak Cost of Power	(per kWh)		0.0689
Winter Off Peak Demand Cost of Power	(per kWh)	$	0.0412
Summer On Peak Demand Cost of Power	(per kWh)	$	0.0582
Summer Off Peak Demand Cost of Power	(per kWh)	$	0.0306
		$	
		$	

A SAMPLE RATE SCHEDULE FOR ELIGIBLE CUSTOMERS OF ARNPRIOR
For Retroactive Application, Effective April 1, 2004

Hydro One Networks Inc.
For the Service Area Formerly Served by the
Hydro-Electric Commission of the Town of Arnprior
SCHEDULE OF DISTRIBUTION RATES AND CHARGES
Effective *April 1, 2004*

INTERIM DSM TIME-OF-USE RATES

The following rates shall remain in effect until superceded by further Order or Orders of the Board.

ToU Criteria for Eligibility:

Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates

The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

GENERAL SERVICE – DEMAND BILLED *ToU*

Monthly Service Charge	(per month)	$12.84
Distribution Volumetric Rate	(per ***on-peak*** kW)	$2.38

LARGE USE – *INTERIM ToU*

Monthly Service Charge	(per month)	$12.84
Distribution Volumetric Rate	(per ***on-peak*** kW)	$0.0075

A SAMPLE RATE SCHEDULE FOR ELIGIBLE CUSTOMERS OF ARNPRIOR
Effective as of the Date Approved by the Board

Hydro One Networks Inc.
For the Service Area Formerly Served by the
Hydro-Electric Commission of the Town of Arnprior
SCHEDULE OF DISTRIBUTION RATES AND CHARGES
Effective xxxx *[Date approved by the Board]*

INTERIM DSM TIME-OF-USE RATES

The following rates shall remain in effect until superceded by further Order or Orders of the Board.

ToU Criteria for Eligibility:

Customers' electricity consumption in the off-peak period is at least twice the electricity consumption during the on-peak period.

Interim Time-of-Use Rates

The on-peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during the winter (standard time) on business days and 0600 hours to 1800 hours Eastern Standard Time during the summer (daylight savings time) on business days. Off-peak period constitutes all of the remaining hours.

GENERAL SERVICE – DEMAND BILLED *ToU*

Monthly Service Charge	(per month)	$12.84
Distribution Volumetric Rate	(per ***on-peak*** kW)	$2.38

LARGE USE – *INTERIM ToU*

Monthly Service Charge	(per month)	$12.84
Distribution Volumetric Rate	(per ***on-peak*** kW)	$0.0075